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RUEHBO/AMEMBASSY BOGOTA 7943
RUEHBR/AMEMBASSY BRASILIA 6105
RUEHLP/AMEMBASSY LA PAZ 2856
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RUEHSP/AMEMBASSY PORT OF SPAIN 3661
RUEHQT/AMEMBASSY QUITO 2952
RUEHSG/AMEMBASSY SANTIAGO 4083
RUEHDG/AMEMBASSY SANTO DOMINGO 0611
RHEHNSC/NSC WASHDC
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCPDOG/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000214

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD, DOE/EIA FOR MCLINE
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO

E.O. 12958: DECL: 02/13/2019

TAGS: [EPET](#) [EINV](#) [ENRG](#) [ECON](#) [VE](#)

SUBJECT: PDVSA'S STRATEGY AGAINST EXXONMOBIL AND INCREASED
SINOVENSA PRODUCTION

REF: A. (A) CARACAS 106

[1](#)B. (B) CARACAS 136

[1](#)C. (C) CARACAS 149

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b)
and (d).

[1](#)1. (C) SUMMARY: According to a PDVSA employee interviewed following his visa renewal, PDVSA is aggressively preparing its international arbitration case against ExxonMobil (XM), is reviewing and prioritizing balances due to service companies, and is optimistic that ConocoPhillips (CP) will return to Venezuela (regardless of the status of its international arbitration case). PetroMonagas transferred two drilling rigs to Sinovensa to increase production. END SUMMARY.

PDVSA's Arbitration Strategy

[1](#)2. (C) On February 9, Petroleum AttachQ (Petatt) spoke with Jose Angel Pereira Ruimwyk (strictly protect throughout), Finance Manager of PetroMonagas (Cerro Negro) in the Consular Section following his visa interview. (NOTE: PetroMonagas is a joint venture between PDVSA and BP which replaced the Cerro Negro Strategic Association. ExxonMobil, which formerly had 41.67 percent of Cerro Negro, left Venezuela in 2007 following its forced migration to a joint venture. It has since filed for arbitration with the International Centre for Settlement of Investment Disputes (ICSID) and with the International Chamber of Commerce (ICC). In conjunction with the ICC filing, courts in the U.S., UK, Netherlands, and Netherlands Antilles granted XM a freeze injunction against PDVSA removing any assets from those territories). Pereira planned to travel to New York City the following day for meetings with Curtis, Mallet-Prevost, Colt & Mosle, PDVSA's legal counsel handling the international arbitration case with XM. He expects to travel routinely to New York City for the arbitration hearings, which he stated will open in September or October of 2009. His written testimony (a copy

is available from Petatt Yoneoka) indicates PDVSA's arbitration strategy is to argue XM mismanaged Cerro Negro (e.g. allegations that costs related to well maintenance and repairs following expropriation were substantially greater than budgeted) and as a result, PDVSA has incurred and will continue to incur substantial and extraordinary costs. In contrast to the negative comments frequently made about XM, Pereira expressed optimism that CP would re-enter the Venezuelan market (possibly through the current Carabobo Round), despite its on-going ICSID arbitration case concerning the expropriation of its stake in the Petrozuata and Hamaca Strategic Associations.

PDVSA's Outstanding Bills

13. (C) Pereira indicated that on Friday, February 6, PDVSA conducted an intensive review of all outstanding invoices to service companies (Reftel B). He believed that senior PDVSA management was going to review the results, prioritize payments of outstanding balances and make some payments starting February 9 (Note: Schlumberger President, Ivan Betancourt (strictly protect throughout), told Petatt that he doubted any payments would be made before February 22 and that the BRV was in no hurry.) Pereira stated that BP was "extremely happy" with the status of payments to date and that PDVSA had made two dividend payments to BP in 2008 (NOTE: Per Reftel A, BP received over \$100 million in dividends from PDVSA in 2008 and is satisfied with the revenue flow).

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PDVSA Increasing Sinovensa Production

14. (C) Pereira also shared that within the last month, PDVSA transferred two drilling rigs, one operated by Weatherford and the other by Everston, from PetroMonagas to Sinovensa (NOTE: Sinovensa is a joint venture between PDVSA and the Chinese National Petroleum Corporation) to help increase production from that block (Reftel A and C). Pereira estimated that the total production of syncrude from the Faja is 600,000 b/d.

Comment

15. (C) Pereira's comments corroborate recent developments in the PetroMonagas and Sinovensa fields reported reftels. PDVSA is attempting to increase Sinovensa production at the expense of its PetroMonagas supply contracts to the Chalmette refinery. Senior PDVSA management, if not completely informed of the magnitude of its overdue payments problem, now reportedly has a broader picture of outstanding debt. PDVSA continues to participate in international arbitration with both XM and CP, but believes that the process with CP might be easier to resolve and could possibly re-open the door to its return. In fact, a number of private sector oil patch contacts have recently told econoffs that PDVSA hopes CP will return to Venezuela.

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